

Madison County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2006 and 2005



Madison County Memorial Hospital

June 30, 2006 and 2005

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

We have audited the accompanying balance sheets of Madison County Memorial Hospital as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison County Memorial Hospital as of June 30, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Madison County Memorial Hospital
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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
August 24, 2006

Madison County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2006 and 2005

Introduction

This management's discussion and analysis of the financial performance of Madison County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2006 and 2005. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased between 2006 and 2005 by \$238,701 or 25% and increased between 2005 and 2004 by \$331,000 or 53%.
- The Hospital's net assets increased \$704,362 or 9% in 2006 over 2005 and increased \$467,997 or 6% in 2005 over 2004.
- The Hospital reported operating losses in both 2006 \$(721,743) and 2005 \$(825,446). The operating loss in 2006 decreased by \$103,703 or 13% from the operating loss reported in 2005 and the loss in 2005 decreased by \$63,010 or 7% over the operating loss reported in 2004.
- Net nonoperating revenues increased by \$132,662 or 10% in 2006 compared to 2005 and increased by \$48,463 or 4% in 2005 compared to 2004.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$704,362 or 9% in 2006 over 2005 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2006	2005	2004
Assets			
Patient accounts receivable, net	\$ 1,835,003	\$ 1,571,650	\$ 2,034,319
Other current assets	2,878,729	2,935,872	2,532,740
Capital assets, net	5,791,260	5,536,385	5,941,286
Other noncurrent assets	<u>4,735,621</u>	<u>2,369,075</u>	<u>1,954,948</u>
Total assets	<u>\$ 15,240,613</u>	<u>\$ 12,412,982</u>	<u>\$ 12,463,293</u>
Liabilities			
Current liabilities	\$ 3,098,885	\$ 2,749,021	\$ 3,080,078
Long-term debt	<u>3,608,470</u>	<u>1,835,065</u>	<u>2,022,316</u>
Total liabilities	<u>6,707,355</u>	<u>4,584,086</u>	<u>5,102,394</u>
Net Assets			
Invested in capital assets, net of related debt	4,102,657	3,558,575	3,744,479
Restricted expendable	1,197,503	643,123	583,517
Unrestricted	<u>3,233,098</u>	<u>3,627,198</u>	<u>3,032,903</u>
Total net assets	<u>8,533,258</u>	<u>7,828,896</u>	<u>7,360,899</u>
Total liabilities and net assets	<u>\$ 15,240,613</u>	<u>\$ 12,412,982</u>	<u>\$ 12,463,293</u>

In 2006, the Hospital refinanced the Series 2000 Revenue bonds at a lower interest rate and secured new debt for a building addition. The addition was financed through Revenue bonds and current Hospital investments. Net patient service revenue increased \$710,586 or 6% thus accounts receivable also increased. The Hospital was able to decrease the average gross days in accounts receivable from 51 in 2005 to 45 in 2006.

A significant change in the Hospital's assets in 2005 is patient accounts receivable, which decreased \$462,669 secondary to implementation of an Accounts Receivable Plan implemented in July 2004. The Plan provided clear guidance to staff and monthly charts kept the Board informed of progress. The reduction in accounts receivable allowed the Hospital to invest the resources and earn more interest income.

Operating Results and Changes in the Hospital's Net Assets

In 2006, the Hospital's net assets increased by \$704,362 or 9% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2006	2005	2004
Operating Revenues			
Net patient service revenue	\$ 12,538,207	\$ 11,827,621	\$ 11,376,597
Other operating revenues	<u>152,494</u>	<u>162,022</u>	<u>178,988</u>
Total operating revenues	<u>12,690,701</u>	<u>11,989,643</u>	<u>11,555,585</u>
Operating Expenses			
Salaries and wages and employee benefits	7,880,192	7,545,009	7,222,560
Medical and professional fees	1,904,439	1,949,877	1,959,588
Depreciation and amortization	660,521	682,547	691,849
Other operating expenses	<u>2,967,292</u>	<u>2,637,656</u>	<u>2,570,044</u>
Total operating expenses	<u>13,412,444</u>	<u>12,815,089</u>	<u>12,444,041</u>
Operating Loss	<u>(721,743)</u>	<u>(825,446)</u>	<u>(888,456)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,341,540	1,309,227	1,302,855
Interest expense	(104,247)	(131,025)	(149,807)
Interest income	116,899	51,604	38,292
Rent income	27,987	29,986	32,655
Non-capital grants and gifts	<u>43,926</u>	<u>33,651</u>	<u>20,985</u>
Total nonoperating revenues	<u>1,426,105</u>	<u>1,293,443</u>	<u>1,244,980</u>
Increase in Net Assets	<u>\$ 704,362</u>	<u>\$ 467,997</u>	<u>\$ 356,524</u>

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2006, 2005 and 2004, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Madison County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients. The primary components of the change in operations from 2005 to 2006 are as follows:

- Net patient service revenue increased \$710,586 or 6% primarily due to increased inpatient days of 628 or 17%. The Hospital hired a full time Emergency Department Physician to treat patients at night and on weekends. This significantly decreased reliance on Residents who were contracted to fill those shifts. The new Emergency Department Physician together with local Medical Staff was instrumental in admitting more inpatients and increasing Emergency Department visits by 359 or 11%.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$335,183 or 4%. The Hospital maintains wages to be competitive with Des Moines area market in order to recruit and retain quality staff, thus, accounting in part for the increases in 2006.
- The average daily census in Hospice increased 4 patients per day. The expenses related to caring for Hospice patients in the nursing home increased \$135,950 or 90% due to more patients being cared for in the nursing home facilities than at home.

The operating loss for 2005 decreased by \$63,010 or 7% as compared to 2004. The primary components of the decreased operating loss are:

- Net patient service revenue increased \$451,054 or 4% over 2004.
- Outpatient revenue was very strong in 2005 and the shift was noted especially in surgery as the Hospital performed 21 less major surgeries and 19 more minor surgeries than in 2004. Increased outpatient ancillary revenue in laboratory and radiology were apparent.
- Medical and professional fees decreased, partially due to renegotiation of two contracts, including rehabilitation in January 2005 and radiology in July 2004.
- The Public Health and Lifeline programs and staff were transferred to Madison County in July 2004.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$322,449 or 4%. The Hospital did focus on full-time equivalent employees and changes were made as necessary throughout the year, primarily due to attrition.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense which, in total, increased by \$132,662 or 10% from 2006 to 2005 and remained relatively constant in 2005 as compared to 2004. The increase in 2006 was due primarily to the receipt of increased interest income of \$65,295. The Hospital increased investments for longer terms at higher interest rates to earn the additional interest income. The Board of Trustees held the property tax levy steady for a sixth consecutive year in 2006.

Contributions

The Hospital received contributions of \$43,926 from various individuals in 2006, an increase of \$10,275 or 31% from 2005.

The Hospital received contributions of \$33,651 from various individuals in 2005, an increase of \$12,666 or 60% from 2004.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2006, 2005 and 2004, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2006, the Hospital had \$5.8 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2006, the Hospital purchased new capital assets costing \$899,551 most of which related to the new building addition discussed above.

At the end of 2005, the Hospital had \$5.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2005, the Hospital purchased new capital assets costing \$269,626.

Debt

In 2006, the Hospital refinanced the Series 2000 Revenue Bonds and secured new debt for a building addition. The total of the Series 2005 issue was \$4,000,000. The building addition is anticipated to be complete by the spring of 2007 and includes an additional operating room, private recovery rooms, specialty clinic exam rooms for visiting physicians and a new area for Medical Records outside of the patient care area.

At June 30, 2005, the Hospital had \$2,022,317 in revenue capital loan notes, loans and capital lease obligations outstanding. The Hospital issued no new debt in 2005 or 2004.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling (515) 462-2373.

Madison County Memorial Hospital

Balance Sheets

June 30, 2006 and 2005

Assets

	2006	2005
Current Assets		
Cash and cash equivalents	\$ 715,190	\$ 953,891
Assets held under bond indenture agreement	214,353	149,775
Patient accounts receivable, net of allowance; 2006 – \$329,000, 2005 – \$361,403	1,835,003	1,571,650
Property taxes receivable	1,430,569	1,364,936
Other receivables	59,465	46,491
Supplies	279,040	275,300
Prepaid expenses	<u>180,112</u>	<u>145,479</u>
Total current assets	<u>4,713,732</u>	<u>4,507,522</u>
Noncurrent Cash and Deposits		
Internally designated	1,544,803	1,821,445
Externally restricted		
Held under bond indenture agreement	3,177,431	578,912
By donors	<u>67,362</u>	<u>73,986</u>
	4,789,596	2,474,343
Less amount required to meet current obligations	<u>214,353</u>	<u>149,775</u>
	<u>4,575,243</u>	<u>2,324,568</u>
Capital Assets, Net of Accumulated Depreciation	<u>5,791,260</u>	<u>5,536,385</u>
Other Assets		
Deferred financing costs (net of amortization; 2006 – \$67,101, 2005 – \$46,866)	<u>160,378</u>	<u>44,507</u>
Total Assets	<u>\$ 15,240,613</u>	<u>\$ 12,412,982</u>

Liabilities and Net Assets

	2006	2005
Current Liabilities		
Current maturities of long-term debt	\$ 244,862	\$ 187,252
Accounts payable	332,500	342,513
Accrued vacation	366,242	388,396
Accrued payroll and related liabilities	367,409	336,390
Estimated self-insurance costs	30,000	30,000
Accrued interest	14,353	9,775
Estimated amounts due to third-party payers	335,000	115,000
Deferred revenue for property taxes	<u>1,408,519</u>	<u>1,339,695</u>
Total current liabilities	3,098,885	2,749,021
Long-term Debt	<u>3,608,470</u>	<u>1,835,065</u>
Total liabilities	<u>6,707,355</u>	<u>4,584,086</u>
Net Assets		
Invested in capital assets, net of related debt	4,102,657	3,558,575
Restricted-expendable for		
Construction project	405,000	—
Debt service	725,141	569,137
Specific operating activities	67,362	73,986
Unrestricted	<u>3,233,098</u>	<u>3,627,198</u>
Total net assets	<u>8,533,258</u>	<u>7,828,896</u>
Total Liabilities and Net Assets	<u>\$ 15,240,613</u>	<u>\$ 12,412,982</u>

Madison County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 12,973,983	\$ 12,334,385
Provision for uncollectible accounts	<u>(435,776)</u>	<u>(506,764)</u>
Net patient service revenue	12,538,207	11,827,621
Other	<u>152,494</u>	<u>162,022</u>
Total operating revenues	<u>12,690,701</u>	<u>11,989,643</u>
Operating Expenses		
Salaries and wages	6,075,903	5,812,688
Employee benefits	1,804,289	1,732,321
Medical professional fees	1,904,439	1,949,877
Supplies and expenses	1,493,196	1,251,677
General services	442,367	434,305
Administrative services	870,412	828,300
Depreciation and amortization	660,521	682,547
Insurance	<u>161,317</u>	<u>123,374</u>
Total operating expenses	<u>13,412,444</u>	<u>12,815,089</u>
Operating Loss	<u>(721,743)</u>	<u>(825,446)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,341,540	1,309,227
Interest expense	(104,247)	(131,025)
Interest income	116,899	51,604
Rent income	27,987	29,986
Noncapital grants and gifts	<u>43,926</u>	<u>33,651</u>
Total nonoperating revenues	<u>1,426,105</u>	<u>1,293,443</u>
Increase in Net Assets	704,362	467,997
Net Assets, Beginning of Year	<u>7,828,896</u>	<u>7,360,899</u>
Net Assets, End of Year	<u>\$ 8,533,258</u>	<u>\$ 7,828,896</u>

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Operating Activities		
Receipts from and on behalf of patients	\$ 12,494,854	\$ 11,942,290
Payments to suppliers and contractors	(4,948,713)	(4,686,910)
Payments to employees	(7,866,749)	(7,503,202)
Other receipts, net	<u>147,746</u>	<u>166,012</u>
Net cash used in operating activities	<u>(172,862)</u>	<u>(81,810)</u>
Noncapital Financing Activities		
Property taxes	1,341,540	1,309,227
Noncapital grants and gifts	43,926	33,651
Other	<u>27,987</u>	<u>29,986</u>
Net cash provided by noncapital financing activities	<u>1,413,453</u>	<u>1,372,864</u>
Capital and Related Financing Activities		
Proceeds from issuance of capital debt	4,000,000	—
Discount on issuance of capital debt	(50,000)	—
Principal paid on capital debt and leases	(257,252)	(179,397)
Refunding of capital debt	(1,865,000)	—
Deferred financing costs	(133,983)	—
Interest paid on capital debt and leases	(104,247)	(131,025)
Proceeds from sale of capital assets	499	586
Purchase of capital assets	<u>(870,955)</u>	<u>(269,626)</u>
Net cash provided by (used in) capital and related financing activities	<u>719,062</u>	<u>(579,462)</u>
Investing Activities		
Interest on deposits	116,899	51,604
Purchase of deposits	(5,019,280)	(2,419,253)
Proceeds from disposition of deposits	<u>3,022,000</u>	<u>1,936,000</u>
Net cash used in investing activities	<u>(1,880,381)</u>	<u>(431,649)</u>
Increase in Cash and Cash Equivalents	79,272	279,943
Cash and Cash Equivalents, Beginning of Year	<u>984,475</u>	<u>704,532</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,063,747</u>	<u>\$ 984,475</u>

(Continued)

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 715,190	\$ 953,891
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	1,474	1,686
Held under bond agreement	343,721	18,912
Externally restricted by donor	<u>3,362</u>	<u>9,986</u>
	<u>\$ 1,063,747</u>	<u>\$ 984,475</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (721,743)	\$ (825,446)
Depreciation and amortization	660,521	682,547
Loss on sale of capital assets	5,035	267
Changes in operating assets and liabilities		
Patient accounts receivable, net	(263,353)	462,669
Supplies	(3,740)	(16,246)
Estimated amounts due from and to third-party payers	220,000	(348,000)
Accounts payable and accrued expenses	(34,949)	(21,411)
Other assets and liabilities	<u>(34,633)</u>	<u>(16,190)</u>
Net cash used in operating activities	<u>\$ (172,862)</u>	<u>\$ (81,810)</u>
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	<u>\$ (28,596)</u>	<u>\$ —</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Madison County Memorial Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Madison County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Madison County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2006 and 2005, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Property Taxes

The Hospital received approximately 10% of its financial support from property tax revenues in the both of the years ended June 30, 2006 and 2005, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to dental, vision and short-term disability claims, for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from dental, vision and short-term disability claims. Annual estimated provisions are accrued for the self-insured dental, vision and short-term disability claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 to 25 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2006</u>
Interest costs capitalized (net of interest earnings on project funds)	\$ (5,621)
Interest costs charged to expense	<u>104,247</u>
Total interest incurred (net of interest earnings on project funds)	<u>\$ 98,626</u>

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using bonds outstanding method.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable net assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$197,063 and \$56,166 for 2006 and 2005, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- ◆ **Medicare.** Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 55% and 52% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2006 and 2005, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Interest Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2006 and 2005. The Hospital's deposits in banks at June 30, 2006 and 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2006 and 2005.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2006	2005
Carrying value		
Deposits	\$ 5,504,366	\$ 3,427,814
Other	<u>420</u>	<u>420</u>
	<u>\$ 5,504,786</u>	<u>\$ 3,428,234</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 715,190	\$ 953,891
Assets held under bond indenture agreement	3,177,431	578,912
Other noncurrent cash and deposits	<u>1,612,165</u>	<u>1,895,431</u>
	<u>\$ 5,504,786</u>	<u>\$ 3,428,234</u>

Interest Income

Interest income for the years ended June 30, 2006 and 2005, amounted to \$116,899 and \$51,604, respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2006 and 2005 consisted of:

	2006	2005
Medicare	\$ 673,407	\$ 441,476
Medicaid	98,389	63,855
Other third-party payers	691,958	775,002
Patients	<u>700,249</u>	<u>652,720</u>
	2,164,003	1,933,053
Less allowance for uncollectible accounts	<u>329,000</u>	<u>361,403</u>
	<u>\$ 1,835,003</u>	<u>\$ 1,571,650</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2006 and 2005 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2006					
Land	\$ 5,046	\$ —	\$ —	\$ —	\$ 5,046
Land improvements	590,004	—	—	—	590,004
Buildings and leasehold improvements	4,884,992	—	(12,359)	1,059	4,873,692
Fixed equipment	3,577,993	—	(39,942)	104,199	3,642,250
Major movable equipment	2,373,593	263,238	(113,585)	126,384	2,649,630
Construction in progress	<u>25,482</u>	<u>636,313</u>	<u>—</u>	<u>(231,642)</u>	<u>430,153</u>
	<u>11,457,110</u>	<u>899,551</u>	<u>(165,886)</u>	<u>0</u>	<u>12,190,775</u>
Less accumulated depreciation					
Land improvements	(191,400)	(32,325)	—	—	(223,725)
Buildings and leasehold improvements	(2,046,335)	(196,470)	11,071	—	(2,231,734)
Fixed equipment	(2,022,600)	(171,623)	39,515	—	(2,154,708)
Major movable equipment	<u>(1,660,390)</u>	<u>(238,724)</u>	<u>109,766</u>	<u>—</u>	<u>(1,789,348)</u>
	<u>(5,920,725)</u>	<u>(639,142)</u>	<u>160,352</u>	<u>0</u>	<u>(6,399,515)</u>
Capital assets, net	\$ <u>5,536,385</u>	\$ <u>260,409</u>	\$ <u>(5,534)</u>	\$ <u>0</u>	\$ <u>5,791,260</u>
	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2005					
Land	\$ 5,046	\$ —	\$ —	\$ —	\$ 5,046
Land improvements	583,269	—	—	6,735	590,004
Buildings and leasehold improvements	4,770,566	—	(9,492)	123,918	4,884,992
Fixed equipment	3,541,584	—	(32,620)	69,029	3,577,993
Major movable equipment	2,263,308	61,644	(13,832)	62,473	2,373,593
Construction in progress	<u>79,655</u>	<u>207,982</u>	<u>—</u>	<u>(262,155)</u>	<u>25,482</u>
	<u>11,243,428</u>	<u>269,626</u>	<u>(55,944)</u>	<u>0</u>	<u>11,457,110</u>
Less accumulated depreciation					
Land improvements	(159,267)	(32,137)	—	4	(191,400)
Buildings and leasehold improvements	(1,860,360)	(192,642)	8,639	(1,972)	(2,046,335)
Fixed equipment	(1,879,045)	(176,786)	32,620	611	(2,022,600)
Major movable equipment	<u>(1,403,470)</u>	<u>(272,109)</u>	<u>13,832</u>	<u>1,357</u>	<u>(1,660,390)</u>
	<u>(5,302,142)</u>	<u>(673,674)</u>	<u>55,091</u>	<u>0</u>	<u>(5,920,725)</u>
Capital assets, net	\$ <u>5,941,286</u>	\$ <u>(404,048)</u>	\$ <u>(853)</u>	\$ <u>0</u>	\$ <u>5,536,385</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

The Hospital began a construction project to expand the Hospital facility during the year ended June 30, 2006. Total costs expected on the project are \$2,625,000. Total amounts spent as of June 30, 2006 were approximately \$241,000 leaving \$2,059,000 remaining costs to be incurred. The Hospital financed \$1,925,000 of this project with the Series 2005 Hospital Revenue and Refunding Notes (*see Note 8*) and the remainder is to be financed with Hospital funds.

Note 6: Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

The Hospital is required under agreement to provide tail coverage to certain employed physicians practicing at the Hospital. The Hospital is liable for any medical liability claims prior to the physician's employment dates, for which it is self-insured. As of June 30, 2006, the Hospital is unaware of any claims arising from dates of service prior to the physicians' employment.

Note 7: Risk Management

Liabilities include an accrual for claims that have been incurred but not reported for self-insured employee benefits. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital is self-insured for dental, vision and disability benefits. Changes in the balance of claims liabilities during 2006 and 2005 are summarized as follows:

	2006	2005
Balance, beginning of year	\$ 30,000	\$ 30,000
Current year claims and changes in estimates	130,867	126,097
Claim payments	<u>(130,867)</u>	<u>(126,097)</u>
Balance, end of year	<u>\$ 30,000</u>	<u>\$ 30,000</u>

June 30, 2006 and 2005

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2006 and 2005:

	2005				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue capital loan notes Series 2000 (A)	\$ 1,995,000	\$ —	\$ (130,000)	\$ 1,865,000	\$ 140,000
Rural economic development loan (C)	84,000	—	(12,000)	72,000	12,000
Capital lease obligations (D)	<u>122,714</u>	<u>—</u>	<u>(37,397)</u>	<u>85,317</u>	<u>35,252</u>
Total long-term debt	<u>\$ 2,201,714</u>	<u>\$ 0</u>	<u>\$ (179,397)</u>	<u>\$ 2,022,317</u>	<u>\$ 187,252</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

- (A) Hospital Revenue Capital Loan Notes, Series 2000, originally aggregating \$2,500,000, were issued by the Hospital to finance building improvements. The bonds consisted of \$785,000 term bonds bearing interest at 6.00% due June 1, 2010 and \$1,080,000 term bonds bearing interest at 6.50% due June 1, 2015. The bonds are subject to mandatory redemption prior to maturity serially through June 1, 2015 at a redemption price of 100% of principal plus accrued interest; collateralized by net revenues of the Hospital.

The Hospital issued Hospital Revenue and Refunding Notes, Series 2005, and refunded its outstanding 2000 notes in the total principal amount of \$1,865,000. Proceeds from the notes were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the refunded notes. This advance refunding transaction resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 2000 notes at the time of the refunding. Accordingly, the 2000 notes, aggregating \$1,865,000 at June 30, 2006 remain outstanding, but are excluded from the Hospital's balance sheets.

- (B) Hospital Revenue and Refunding Notes, Series 2005, originally aggregating \$4,000,000, were issued by the Hospital to finance building improvements and refund the remaining 2000 Series Notes. Total notes of \$2,150,000 mature serially through 2015 bearing interest at 3.75% to 4.65%. The remaining notes consist of \$1,640,000 term notes bearing interest at 5.00% due June 1, 2020. The term notes are subject to mandatory sinking fund redemption prior to maturing serially through June 1, 2020 at a redemption price of 100% of principal plus accrued interest; collateralized by net revenues of the Hospital.
- (C) Noninterest-bearing loan due September 20, 2010; payable \$12,000 annually; secured by irrevocable letter of credit from Union State Bank.
- (D) At an imputed interest of 7.3% maturing through 2008 and collateralized by leased equipment. Equipment includes the following property under capital leases:

	2006	2005
Equipment	\$ 150,850	\$ 179,043
Less accumulated depreciation	<u>105,595</u>	<u>102,022</u>
	<u>\$ 45,255</u>	<u>\$ 77,021</u>

The Series 2005 Note Resolution provides that a Debt Service Reserve Fund be maintained in the amount set forth in the Loan Agreement (\$370,000). The Debt Service Reserve, included in non-current cash and deposits, amounted to \$370,000 at June 30, 2006.

The Note Resolution also requires that payments be made to a Sinking Fund in amounts sufficient to pay the principal of and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$369,493 and \$328,912 at June 30, 2006 and 2005, respectively. At June 30, 2006 and 2005, deposits in the Sinking Fund were in excess of required amounts of \$338,474 and \$307,470, respectively.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

The debt service requirements for the Hospital Revenue and Refunding Notes Series 2005 as of June 30, 2006, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	\$ 372,235	\$ 200,000	\$ 172,235
2008	374,735	210,000	164,735
2009	376,650	220,000	156,650
2010	377,960	230,000	147,960
2011	373,645	235,000	138,645
2012 – 2016	1,881,563	1,350,000	531,563
2017 – 2020	<u>1,517,250</u>	<u>1,345,000</u>	<u>172,250</u>
	<u>\$ 5,274,038</u>	<u>\$ 3,790,000</u>	<u>\$ 1,484,038</u>

The debt service requirements as of June 30, 2006 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	Principal
2007	\$ 12,000	\$ 12,000
2008	12,000	12,000
2009	12,000	12,000
2010	12,000	12,000
2011	<u>12,000</u>	<u>12,000</u>
	<u>\$ 60,000</u>	<u>\$ 60,000</u>

The following is a schedule by year of future minimum lease payments under the capital lease including interest together with the present value of the future minimum lease payments as of June 30, 2006:

Year Ending June 30,	Amount
2007	\$ 35,461
2008	<u>17,608</u>
Total minimum lease payments	53,069
Less amount representing interest	<u>3,004</u>
Present value of future minimum lease payments	<u>\$ 50,065</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 9: Restricted and Designated Net Assets

At June 30, 2006 and 2005, restricted expendable net assets were available for the following purposes:

	2006	2005
Construction project	\$ 405,000	\$ —
Debt service	725,141	569,137
Specific operating activities:		
Hospice	62,742	73,624
Other	<u>4,620</u>	<u>362</u>
Total restricted expendable net assets	\$ <u>1,197,503</u>	\$ <u>643,123</u>

Note 10: Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and death benefits, which are established by State Statute, to plan members and beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2006 and 2005. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2006, 2005 and 2004 were \$331,033, \$326,666 and \$314,426, respectively, which equaled the required contributions for each year.

Note 11: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$177,512 and \$160,052 were incurred for the years ended June 30, 2006 and 2005, respectively.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2006 and 2005

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2006:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,341,540	\$ —	\$ 1,341,540	\$ 1,339,695
Other revenues/receipts	<u>12,879,513</u>	<u>(43,353)</u>	<u>12,836,160</u>	<u>12,783,070</u>
	14,221,053	(43,353)	14,177,700	14,122,765
Expenses/disbursements	<u>13,516,691</u>	<u>34,943</u>	<u>13,551,634</u>	<u>14,841,276</u>
	704,362	(78,296)	626,066	(718,511)
Balance, beginning of year	<u>7,828,896</u>	<u>(2,181,782)</u>	<u>5,647,114</u>	<u>5,647,114</u>
Balance, end of year	<u>\$ 8,533,258</u>	<u>\$(2,260,078)</u>	<u>\$ 6,273,180</u>	<u>\$ 4,928,603</u>

Supplementary Information

Madison County Memorial Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2006 and 2005

	2006				2005			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
Daily Patient Services								
Medical and surgical	\$ 2,086,894	\$ 2,007,890	\$ 79,004	\$	\$ 1,724,127	\$ 1,615,225	\$ 108,902	\$
Swing bed	<u>1,095,600</u>			<u>1,095,600</u>	<u>877,763</u>			<u>877,763</u>
	<u>3,182,494</u>	<u>2,007,890</u>	<u>79,004</u>	<u>1,095,600</u>	<u>2,601,890</u>	<u>1,615,225</u>	<u>108,902</u>	<u>877,763</u>
Nursing Services								
Operating and recovery rooms	783,401	91,933	690,482	986	813,516	61,279	749,971	2,266
Emergency room	<u>1,115,160</u>	<u>56,648</u>	<u>1,058,304</u>	<u>208</u>	<u>1,025,088</u>	<u>38,272</u>	<u>986,816</u>	
	<u>1,898,561</u>	<u>148,581</u>	<u>1,748,786</u>	<u>1,194</u>	<u>1,838,604</u>	<u>99,551</u>	<u>1,736,787</u>	<u>2,266</u>
Other Professional Services								
Laboratory	2,612,984	438,197	2,102,348	72,439	2,374,081	356,922	1,962,725	54,434
Central services and supplies	434,360	131,108	275,791	27,461	403,055	91,556	284,221	27,278
Blood administration	91,026	42,010	46,692	2,324	74,227	23,954	49,001	1,272
Electrocardiology	79,404	15,120	63,840	444	88,775	20,125	67,730	920
Echocardiio/Vascular	207,951	12,459	187,487	8,005	160,281	10,809	146,525	2,947
Stress Test	54,972	433	54,539		64,016	1,656	62,360	
Radiology	1,688,806	142,008	1,529,544	17,254	1,507,028	98,874	1,393,435	14,719
MRI	227,391	4,326	223,065		233,168	3,450	229,718	
Mammography	107,878		104,212	3,666	91,468		91,468	
CT	1,313,952	210,919	1,084,347	18,686	1,097,532	156,847	925,937	14,748
Chronic disease management	130,884		130,095	789	135,133		134,785	348
Nuclear medicine	349,334	14,604	332,213	2,517	395,043	14,805	375,627	4,611
Mental health	225,580	334	225,165	81	312,262	3,212	308,716	334
Pharmacy	1,760,049	665,105	751,599	343,345	1,348,716	483,272	632,263	233,181
Intravenous therapy	413,194	275,702	98,405	39,087	316,349	196,601	88,278	31,470
Madison County Home Care	336,738		336,738		388,554		388,554	
Anesthesiology	340,100	53,713	285,055	1,332	410,768	35,403	373,321	2,044
Respiratory therapy	265,920	211,584	5,568	48,768	237,418	184,368	8,890	44,160
Physical therapy	576,382	39,011	364,724	172,647	611,519	44,391	377,847	189,281
Occupational therapy	285,220	18,596	156,898	109,726	201,011	9,111	117,293	74,607
Speech therapy	59,202	16,446	13,888	28,868	32,838	6,326	14,082	12,430
Substance abuse	131,222	4,836	126,386		211,064	10,214	200,526	324
Health Trust Physicians Clinic	2,163,557	236,876	1,906,910	19,771	1,970,973	212,095	1,739,359	19,519
Earlham Medical Clinic	185,425		185,425		205,923		205,923	
Outpatient clinic	72,840		72,840		51,777		51,777	
Chemotherapy	6,657		6,657		9,896		9,896	
Sleep study	68,148		68,148		113,505		113,505	
Dietitian patient revenue	1,716		1,716		1,781		1,781	
Social Services					1,916		1,916	
Middle River Hospice	<u>1,399,602</u>		<u>1,399,602</u>		<u>816,547</u>		<u>816,547</u>	
	<u>15,590,494</u>	<u>2,533,387</u>	<u>12,139,897</u>	<u>917,210</u>	<u>13,866,624</u>	<u>1,963,991</u>	<u>11,174,006</u>	<u>728,627</u>
Gross Patient Service Revenue	20,671,549	\$ <u>4,689,858</u>	\$ <u>13,967,687</u>	\$ <u>2,014,004</u>	18,307,118	\$ <u>3,678,767</u>	\$ <u>13,019,695</u>	\$ <u>1,608,656</u>
Contractual Adjustments	<u>7,697,566</u>				<u>5,972,733</u>			
Net Patient Service Revenue before								
Provision for Uncollectible Accounts	12,973,983				12,334,385			
Provision for Uncollectible Accounts	<u>(435,776)</u>				<u>(506,764)</u>			
Net Patient Service Revenue	\$ <u>12,538,207</u>				\$ <u>11,827,621</u>			

Madison County Memorial Hospital

Schedules of Other Revenues

Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cafeteria	\$ 28,942	\$ 25,475
Lifeline	—	175
Medical records	8,612	7,550
Other	118,475	128,089
Loss on disposal of property and equipment	(5,035)	(267)
Health Trust physician clinic other revenue	<u>1,500</u>	<u>1,000</u>
	<u>\$ 152,494</u>	<u>\$ 162,022</u>

Madison County Memorial Hospital

Schedules of Operating Expenses Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,196,321	\$ 1,029,639	\$ 166,682	\$ 1,098,218	\$ 942,208	\$ 156,010
Emergency room	690,991	400,835	290,156	649,000	292,436	356,564
Operating and recovery rooms	279,114	206,977	72,137	265,689	204,154	61,535
Nursing administration	72,168	70,394	1,774	81,109	77,506	3,603
	<u>2,238,594</u>	<u>1,707,845</u>	<u>530,749</u>	<u>2,094,016</u>	<u>1,516,304</u>	<u>577,712</u>
Other Professional Services						
Laboratory	584,869	266,266	318,603	585,935	272,664	313,271
Central services and supplies	156,089	59,467	96,622	156,976	59,051	97,925
Blood administration	38,161		38,161	33,438		33,438
Electrocardiology	3,046	1,022	2,024	1,348	344	1,004
Echocardiio/Vascular	85,307		85,307	72,130		72,130
Stress Test	12,762	11,066	1,696	13,427	11,497	1,930
Radiology	493,868	185,722	308,146	436,106	153,981	282,125
MRI	53,949	1,034	52,915	63,223	1,041	62,182
Mammography	22,698	17,408	5,290	20,219	16,772	3,447
CT	220,187	14,187	206,000	203,046	12,415	190,631
Chronic disease management	79,506	69,985	9,521	69,586	60,247	9,339
Nuclear medicine	107,733	1,143	106,590	115,361	932	114,429
Mental health	180,972	110,860	70,112	213,276	156,004	57,272
Pharmacy	507,975	31,764	476,211	458,512	30,953	427,559
Intravenous solutions	12,722		12,722	10,445		10,445
Madison County Home Care	328,109	289,925	38,184	351,218	310,254	40,964
Anesthesiology	196,143		196,143	196,461		196,461
Respiratory therapy	20,513		20,513	18,009		18,009
Physical therapy	241,040		241,040	289,382		289,382
Occupational therapy	78,417		78,417	66,387		66,387
Speech therapy	27,794		27,794	16,524		16,524
Substance abuse	87,818	64,813	23,005	106,941	102,046	4,895
Health Trust Physicians Clinic	1,462,526	1,388,198	74,328	1,538,833	1,469,053	69,780
Earlham Medical Clinic	175,800	157,276	18,524	184,857	158,819	26,038
Outpatient clinic	87,420	86,577	843	72,074	70,842	1,232
Chemotherapy	1,456	1,071	385	3,796	3,738	58
Sleep study	21,172	472	20,700	39,857	257	39,600
Middle River Hospice	542,474	257,806	284,668	352,450	202,849	149,601
Medical records	266,751	215,304	51,447	238,919	211,615	27,304
Social services	27,931	26,956	975	24,038	23,558	480
Observation care	3,564	3,564		5,972	5,972	
Lifeline				(158)	(158)	
	<u>6,128,772</u>	<u>3,261,886</u>	<u>2,866,886</u>	<u>5,958,588</u>	<u>3,334,746</u>	<u>2,623,842</u>
General Services						
Operation of plant	447,811	124,156	323,655	437,151	108,725	328,426
Dietary	276,904	196,423	80,481	244,684	171,037	73,647
Housekeeping	144,291	106,060	38,231	125,132	92,900	32,232
	<u>869,006</u>	<u>426,639</u>	<u>442,367</u>	<u>806,967</u>	<u>372,662</u>	<u>434,305</u>
Administrative Services	<u>1,549,945</u>	<u>679,533</u>	<u>870,412</u>	<u>1,417,276</u>	<u>588,976</u>	<u>828,300</u>
Employee Benefits	<u>1,804,289</u>		<u>1,804,289</u>	<u>1,732,321</u>		<u>1,732,321</u>
Depreciation and Amortization	<u>660,521</u>		<u>660,521</u>	<u>682,547</u>		<u>682,547</u>
Insurance	<u>161,317</u>		<u>161,317</u>	<u>123,374</u>		<u>123,374</u>
	<u>\$ 13,412,444</u>	<u>\$ 6,075,903</u>	<u>\$ 7,336,541</u>	<u>\$ 12,815,089</u>	<u>\$ 5,812,688</u>	<u>\$ 7,002,401</u>

Madison County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2006 and 2005

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2006	2005	2006	2005
Days Since Discharge				
0 – 60	\$ 1,992,967	\$ 1,547,187	69%	68%
61 – 120	340,829	341,661	12	15
121 – 180	322,823	237,300	11	10
181 – 365	162,995	92,555	6	4
366 and over	<u>48,389</u>	<u>49,350</u>	<u>2</u>	<u>3</u>
	<u>2,868,003</u>	<u>2,268,053</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	704,000	335,000		
Allowance for uncollectible accounts	<u>329,000</u>	<u>361,403</u>		
	<u>1,033,000</u>	<u>696,403</u>		
	<u>\$ 1,835,003</u>	<u>\$ 1,571,650</u>		

Allowance for Uncollectible Accounts

	2006	2005
Balance, beginning of year	\$ 361,403	\$ 385,000
Provision for year	435,776	506,764
Recoveries of accounts previously written off	<u>197,747</u>	<u>166,059</u>
	994,926	1,057,823
Less accounts written off	<u>665,926</u>	<u>696,420</u>
Balance, end of year	<u>\$ 329,000</u>	<u>\$ 361,403</u>

Madison County Memorial Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2006 and 2005

Supplies

	<u>2006</u>	<u>2005</u>
General	\$ 181,154	\$ 175,673
Pharmacy	90,568	93,468
Dietary	<u>7,318</u>	<u>6,159</u>
	\$ <u>279,040</u>	\$ <u>275,300</u>

Prepaid Expense

	<u>2006</u>	<u>2005</u>
Insurance	\$ 153,047	\$ 131,474
Maintenance and other	<u>27,065</u>	<u>14,005</u>
	\$ <u>180,112</u>	\$ <u>145,479</u>

Madison County Memorial Hospital

Schedule of Officials

Year Ended June 30, 2006

Name	Title	Term Expires
Board of Trustees		
Mary Corkrean	Chairwoman	2008
Amy McDonald	Vice Chairwoman	2008
Jeffrey Nolan	Secretary/Treasurer	2006
Kevin Mankin	Member	2006
Randy Wheeler	Member	2008
Tom Collins	Member	2010
Trena Walker	Member	2010
Hospital Officials		
Marcia Harris	Chief Executive Officer	
Rebekah Mitchell	Chief Financial Officer	

Madison County Memorial Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Patient Days (Exclusive of swing bed)		
Medicare	1,748	1,484
Medicaid	83	100
Private and other	<u>544</u>	<u>409</u>
	<u>2,375</u>	<u>1,993</u>
Medicare and Medicaid Percent	<u>77.1%</u>	<u>79.5%</u>
Percent of Occupancy (Acute)	<u>26.0%</u>	<u>21.8%</u>
Discharges (Exclusive of swing bed)		
Medicare	458	426
Medicaid	34	27
Private and other	<u>195</u>	<u>178</u>
	<u>687</u>	<u>631</u>
Average Length of Stay in Days	<u>3.5</u>	<u>3.2</u>

Madison County Memorial Hospital

Schedule of Insurance Coverage

Year Ended June 30, 2006

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2007

Blanket building and contents	\$ 17,208,000
Loss of income and extra expense	8,276,888
Personal property in-transit	50,000
Personal property at a temporary storage site	50,000
Nuclear hazard	5,000,000
Valuable papers	1,000,000
Accounts receivable	400,000
EDP Media/Software	500,000
Flood	5,000,000
Earthquake	5,000,000
Employee dishonesty	250,000
Depositors forgery	250,000

Policy No. 7324-54-55, expiring January 1, 2007

Comprehensive automobile liability	
Liability	1,000,000
Hired and non-owned auto physical damage	25,000

Midwest Medical Insurance Company

Comprehensive hospital liability, expiring January 1, 2007

Hospital professional liability, Policy No. MHP000026	1,000,000/3,000,000
General liability, Policy No. MHP000026	1,000,000/3,000,000
Employee benefits, Policy No. MHP000026	1,000,000/3,000,000

Excess liability, expiring January 1, 2007

Excess medical liability, Policy No. MHP000026	3,000,000/3,000,000
Umbrella liability, Policy No. MHP000026	3,000,000/3,000,000

Executive Risk Indemnity, Inc.

Policy No. 6802-0186, expiring January 1, 2007

Directors' and officers' liability	4,000,000/4,000,000
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Madison County Memorial Hospital
Schedule of Activity for Assets Limited
As to Use for Construction and
Capital Loan Note Related Accounts
Year Ended June 30, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Held under capital loan note agreements				
Sinking Fund	\$ 328,912	\$ 385,709	\$ 345,127	\$ 369,494
Project Funds	—	2,668,305	230,368	2,437,937
Debt Service Reserve Fund	<u>250,000</u>	<u>120,000</u>	<u>—</u>	<u>370,000</u>
	<u>\$ 578,912</u>	<u>\$ 3,174,014</u>	<u>\$ 575,495</u>	<u>\$ 3,177,431</u>



**Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

We have audited the financial statements of Madison County Memorial Hospital as of and for the year ended June 30, 2006, and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2006. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2006 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the trustee minutes but were not.

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

The Hospital filed the annual unclaimed property report with the state treasurer in accordance with Chapter 556.11.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

* * * * *

This report is intended solely for the information and use of the governing body and management and the State of Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
August 24, 2006

Madison County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2006

Reference Number	Finding
	None



Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

As part of our audit of the financial statements of Madison County Memorial Hospital for the year ended June 30, 2006, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all opportunities for improvement. We offer the following comment, which will relate to future audits. Previously we made observations as a result of our 2005 audit engagement in a letter dated August 25, 2005.

New Auditing Standards

The Auditing Standards Board of the AICPA has issued ten new auditing pronouncements that will be effective for the Hospital in the future. It is not reasonable to estimate at this time what effect this will have on future audits; however, it is likely that audit time will increase. A synopsis of the changes are as follows:

Standards Effective Fiscal 2007

SAS 103 – *Audit Documentation* – This statement makes audit documentation requirements similar for both public and non-public entities. It requires documentation of significant issues identified, discussions with management or others, evidence gathered and conclusions reached. Audit report dating standards have changed requiring all evidence be obtained prior to dating the report.

SAS 112 – *Communicating Internal Control Related Matters Identified in an Audit* – This statement changes the definition and classification of weaknesses in control design and in general requires more disclosure of internal control issues.

Standards Effective Fiscal 2008

The other eight statements would be effective for the Hospital beginning with the fiscal year ending June 30, 2008. These statements referred to as the Risk Assessment Suite of Standards address many basic auditing standards such as due professional care, audit evidence, materiality, planning, supervision and audit sampling.

* * * * *

We appreciate the opportunity to present this comment and suggestion. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include an item that we believe merits your consideration. We can discuss this matter further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
August 24, 2006